



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

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MICHIGAN HEALTH ACADEMY

**Financial Statements
June 30, 2006**



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CHARTERED CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

October 1, 2006

To the Board of Directors
Michigan Health Academy

We have audited the accompanying financial statements of the governmental activities of Michigan Health Academy, as of and for the year ended June 30, 2006, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Michigan Health Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Michigan Health Academy as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Michigan Health Academy
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In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2006, on our consideration of Michigan Health Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gardner, Provenzano, Schaumann & Thomas, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

MICHIGAN HEALTH ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Introduction

This section of the annual financial report presents management's discussion and analysis of Michigan Health Academy's financial results for the fiscal year ended June 30, 2006. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the Academy.

Using This Report

The annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy as a whole (government-wide statements) and also in more detail (governmental fund statements) showing the year's activity by fund.

Academy Wide Financial Statements

The Academy Wide Financial Statements appear first and report all assets and liabilities using the accrual basis of accounting, similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of activities covers all of the Academy's services including instruction and support services which are financed through Unrestricted State Aid and State and Federal grants. In addition, revenue less expense results in net assets, which can either, increase or decrease on an annual basis.

Fund Financial Statements

The Fund Financial Statements are reported on a modified accrual basis and are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. The Academy uses funds to help control and manage money for specific purposes or to meet legal responsibilities for certain grants. Funds provide a detailed short-term view of the operations and services of the Academy, show how money flows through and out of funds, and the balances left at year-end. Reviewing the funds helps the reader consider whether the Academy is accountable for the resources taxpayers and others provide and gives insight into the Academy's overall financial health.

The relationship between governmental activities (Academy Wide Financial Statements) and governmental fund activities (Fund Financial Statements) will be reconciled later in the report.

**MICHIGAN HEALTH ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Agency and Trust Accounts

The Academy acts as a trustee for various student activity funds. These net assets are excluded from the Academy's other financial statements since these assets cannot be used to finance any of the Academy's operations. The Academy's responsibility is to assure that the reported assets are used for their intended purpose.

Condensed Financial Statements

Analysis of Overall financial Position and Results of Operations

Table 1 provides a summary of the Academy's net assets as of June 30, 2006 and 2005.

	2006	2005
Assets		
Current and other assets	\$ 264,238	\$ 204,683
Capital assets- Net of accumulated depreciation	127,058	203,794
Total assets	<u>391,296</u>	<u>408,477</u>
Liabilities		
Current liabilities	251,498	179,432
Long-term liabilities	320,079	349,433
Total liabilities	<u>571,577</u>	<u>528,865</u>
Net assets		
Invested in property and equipment -Net of related debt	(230,728)	(136,476)
Unrestricted	50,447	16,099
Total Net Assets	<u>\$ (180,281)</u>	<u>\$ (120,377)</u>

Total net assets decreased by \$59,904 to a negative net assets balance of \$180,281. This negative net assets balance is related to the accelerated depreciation on the leasehold improvements while the debt is retiring at a slower rate. The leasehold improvements have been depreciated over the life of the five year building lease. Total assets of \$391,296 decreased by \$17,181, mostly due to a decrease in capital assets due to depreciation. Total liabilities increased by \$42,712 mostly due to a higher balance due to the management company at year end. Loans and a copier lease secured prior to 2006 were paid with unrestricted funds.

The Academy results of operations for 2006 and 2005 are reported below.

**MICHIGAN HEALTH ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Condensed Financial Statements (cont.)

	2006	2005
Revenue		
Program revenue		
Grants and contributions	\$ 193,507	\$ 169,188
General revenue		
State aid - unrestricted	1,009,871	830,634
Other	3,232	2,320
Total revenue	<u>1,206,610</u>	<u>1,002,142</u>
Function/Program expenses		
Instruction	553,545	456,658
Support services	611,477	485,701
Interest on long-term debt	21,761	18,693
Depreciation (unallocated)	79,731	57,740
Total expenses	<u>1,266,514</u>	<u>1,018,792</u>
Increase (decrease) in Net Assets	<u>\$ (59,904)</u>	<u>\$ (16,650)</u>

The Academy enrollment increased between the 2005 and 2006 school years, which required additional space, equipment, supplies and faculty to accommodate the higher number of students. Increased revenue and expense are directly related to the increased enrollment in the 2006 school year. Funding for a portion of these activities came from specifically designated State and Federal grants. The majority of the Academy's funding resulted from the per pupil State Foundation Allowance times the blended number of students. The per pupil funding was increased by \$175 for this fiscal year. The decrease in net assets of \$59,904 is significantly more than the decrease of \$16,650 in 2005 and is a result of overall increased operational expense including interest and depreciation that was not able to be offset by the increased revenue.

Budget Highlights

Michigan Health Academy's budget was developed according to the Uniform Budget Act of the State of Michigan requirements. The Act requires that the original budget for the upcoming fiscal year be approved prior to July 1, start of the fiscal year. As a matter of practice the Michigan Health Academy Board of Directors amends its budget twice during the school year. During the fiscal year ended June 30, 2006, the Academy amended the budget on January 23, 2006 and June 23, 2006. A comparison showing the Academy's original budget, final amended budget and actual results is provided below.

	Original	Final	% Variance	Actual	% Variance
Total Revenue	\$ 1,158,391	\$ 1,206,585	4%	\$ 1,206,610	0.002%
Total Expenditures	1,146,170	1,226,821	7%	1,217,262	-0.78%
Excess Revenue/Expenditures	12,221	(20,236)	-266%	(10,652)	-47.36%

**MICHIGAN HEALTH ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Budget Highlights (continued)

Changes to the original general fund budget were as follows:

- When establishing the 2005/2006 revenue budget only estimates could be used, as there were a number of State and Federal budget factors that had not yet been determined. These factors included the uncertainty of per pupil funding, reductions or possible elimination of specific categoricals and grants. Final appropriations were higher than originally budgeted in large part due to increased federal revenue.

The final budget for expenditures was increased due to the following factors:

- In basic programs the budget was increased by approximately \$13,000. Most of that increase was due to additional salaries and related benefits.
- The budget for compensatory education was increased by approximately \$18,000. This increase was due to additional funds being available for an increase in salaries.
- Improvement of instruction was increased approximately \$31,000. Most of the variance is due to additional funding made available allowing the Academy to be able to contract a consultant for the school improvement plan.

Management believes that the final budget to actual results variances are not significant.

General Fund

The general fund, which is the primary operating fund of the Academy, had a decrease in fund balance of \$10,652 for the year ended June 30, 2006. This decrease was budgeted for and is mostly due to the overall increases in operational expenditures not able to be offset by the increased revenue.

Debt Service Fund

The Academy's debt service fund is used to pay principal and interest on the existing loans with Comerica and Synergy training solutions. At this time, the Academy has no plans to incur any additional debt.

**MICHIGAN HEALTH ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Debt Service Fund (continued)

<u>Long-Term Debt</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Renovation Loan - Comerica	\$ 263,545	\$ 268,820
Synergy Loan	30,447	45,000
Synergy Renovation Loan	62,217	68,000
Copier Lease	1,577	3,450
Total	<u>\$ 357,786</u>	<u>\$ 385,270</u>
<u>Debt Reduction</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Renovation Loan - Comerica	\$ 5,275	\$ 6,892
Synergy Loan	14,553	-
Synergy Renovation Loan	5,783	4,000
Copier Lease	1,873	1,594
Total	<u>\$ 27,484</u>	<u>\$ 12,486</u>

The Academy began payment of the Synergy loan from the 2002/2003 fiscal year and was able to pay down approximately one third of that debt. During the 2006/2007 fiscal year a fixed rate for the Comerica loan was obtained. While the fixed rate will increase the Academy's monthly payments, in the long run, will save the Academy money as compared to the previous variable rate.

Capital Assets

	<u>2006</u>	<u>2005</u>
Leasehold improvements	\$ 331,850	\$ 331,850
Furniture and equipment	37,148	34,153
Total Capital Assets	368,998	366,003
Less accumulated depreciation	<u>241,940</u>	<u>162,209</u>
Net Capital Assets	<u>\$ 127,058</u>	<u>\$ 203,794</u>

The decrease of \$76,763 in net capital assets is due in large part to \$79,731 of depreciation this year.

**MICHIGAN HEALTH ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Conditions Affecting Next Year's Budget

The economy in the State of Michigan continues to be slowing. While the State is considering an increase in the per pupil funding, at the time of 2007 budget a final decision has not been approved. In addition the status of both 31a At-Risk and Vocational Education funding is not known. Enrollment is expected to again increase as an additional class of 12th grade students is added. This will bring the Academy enrollment capacity to 176 students. While additional students will increase the amount of State funding, expenses will also increase in the areas of contracted services, textbooks, teaching supplies and building lease. All of these factors create risk and make budget planning and management difficult. Meeting increased expense requirements will require non-traditional thinking in relation to providing support for academic services and focused attention to fund raising initiatives.

Requests for Information

This report is designed to provide our stakeholders with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Academy Business Office, Synergy Training Solutions, 24535 Jefferson, Saint Clair Shores, MI 48080.

BASIC FINANCIAL STATEMENTS

Michigan Health Academy
Academy Wide
Statement of Net Assets
June 30, 2006

	Governmental Activities
ASSETS	
Cash	\$ 35,271
Due from other governmental units	200,838
Prepaid expense	28,129
Capital assets less accumulated depreciation	127,058
Total Assets	<u>391,296</u>
LIABILITIES	
Accounts payable	12,373
Accrued expense	5,531
Due to management company	195,887
Synergy loan, due within one year	14,995
Synergy loan-renovations, due within one year	12,189
Capital lease, due within one year	1,577
Renovation loan, due within one year	8,946
Long-term liabilities	
Synergy loan, due in more than one year	15,452
Synergy loan-renovations, due in more than one year	50,028
Renovation loan, due in more than one year	254,599
Total Liabilities	<u>571,577</u>
NET ASSETS	
Invested in capital assets net of related debt	(230,728)
Unrestricted	50,447
Total Net Assets	<u>\$ (180,281)</u>

The accompanying notes are an integral part of these financial statements.

Michigan Health Academy
Academy Wide
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 553,545	\$ -	\$ 150,735	\$ (402,810)
Support services	611,477	-	42,772	(568,705)
Interest on long-term debt	21,761	-	-	(21,761)
Depreciation (unallocated)	79,731	-	-	(79,731)
Totals	<u>\$ 1,266,514</u>	<u>\$ -</u>	<u>\$ 193,507</u>	<u>(1,073,007)</u>
General revenues:				
State aid - unrestricted				1,009,871
Other				<u>3,232</u>
Total General Revenues				1,013,103
Change in Net Assets				(59,904)
Net Assets - Beginning of Year				(120,377)
Net Assets - End of Year				<u>\$ (180,281)</u>

The accompanying notes are an integral part of these financial statements.

Michigan Health Academy
Governmental Funds
Balance Sheet
June 30, 2006

	General Fund	Debt Fund	Totals (Memorandum Only) 2006
<u>Assets</u>			
Cash	\$ 35,271	\$ -	\$ 35,271
Due from other governmental units	200,838	-	200,838
Prepays	28,129	-	28,129
Total Assets	<u>\$ 264,238</u>	<u>\$ -</u>	<u>\$ 264,238</u>
<u>Liabilities and Fund Balance</u>			
Liabilities			
Accounts payable	\$ 12,373	\$ -	\$ 12,373
Accrued liabilities	5,531	-	5,531
Due to management company	195,887	-	195,887
Total Liabilities	<u>213,791</u>	<u>-</u>	<u>213,791</u>
Fund Balance			
Unreserved and undesignated	50,447	-	50,447
Total Fund Balance	<u>50,447</u>	<u>-</u>	<u>50,447</u>
Total Liabilities and Fund Balance	<u>\$ 264,238</u>	<u>\$ -</u>	<u>\$ 264,238</u>

The accompanying notes are an integral part of these financial statements.

Michigan Health Academy
Reconciliation of Balance Sheet of Governmental Funds To Net Assets
June 30, 2006

Total Fund Balances - Governmental Funds	\$ 50,447
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is	368,998
Accumulated depreciation is	(241,940)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Synergy loan	(30,447)
Synergy loan- renovations	(62,217)
Capital lease	(1,577)
Renovation loan	(263,545)

Total Net Assets - Governmental Activities (District Wide)	<u>\$ (180,281)</u>
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The accompanying notes are an integral part of these financial statements.

Michigan Health
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2006

Revenue	General	Debt Service	Totals (Memorandum Only)
Local	\$ 4,781	\$ -	\$ 4,781
State	1,096,289	-	1,096,289
Federal	105,540	-	105,540
Total revenue	<u>1,206,610</u>	<u>-</u>	<u>1,206,610</u>
Expenditures			
Instruction			
Basic programs	368,248	-	368,248
Special education	48,929	-	48,929
Compensatory education	42,863	-	42,863
Career and technical education	93,505	-	93,505
Support Services			
Social work services	52,577	-	52,577
Pupil services	480	-	480
Improvement of instruction	33,756	-	33,756
Educational media services	525	-	525
Academic	3,888	-	3,888
General administration	151,952	-	151,952
School administration	110,609	-	110,609
Other school administration	549	-	549
Fiscal services	6,600	-	6,600
Operation and maintenance	242,177	-	242,177
Central	4,000	-	4,000
Technology	6,849	-	6,849
Pupil accounting	510	-	510
Debt service	264	48,981	49,245
Total expenditures	<u>1,168,281</u>	<u>48,981</u>	<u>1,217,262</u>
Excess (Deficit) of Revenues over Expenditures	38,329	(48,981)	(10,652)
Other Financing Sources (Uses)			
Sources	-	48,981	48,981
Uses	(48,981)	-	(48,981)
Total Other Financing Sources (Uses)	<u>(48,981)</u>	<u>48,981</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other (Uses)	(10,652)	-	(10,652)
Fund Balance, Beginning	61,099	-	61,099
Fund Balance, Ending	<u>\$ 50,447</u>	<u>\$ -</u>	<u>\$ 50,447</u>

The accompanying notes are an integral part of these financial statements.

Michigan Health Academy
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net Change in Fund Balances - Governmental Funds	\$ (10,652)
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Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlay as expenditures;
in the statement of activities, these costs are capitalized
and depreciated over their estimated useful lives.

Depreciation expense	(79,731)
Capital outlay	2,995

Repayment of principal is an expenditure in the governmental funds, but not in the statement of activities	27,484
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Change in Net Assets of Governmental Activities (District Wide)	<u>\$ (59,904)</u>
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The accompanying notes are an integral part of these financial statements.

Michigan Health Academy
Statement of Fiduciary Net Assets
June 30, 2006

Assets	
Cash, student organizations	<u>\$ 4,653</u>
Total Assets	<u>\$ 4,653</u>
Liabilities	
Due to student organizations	<u>4,653</u>
Total Liabilities	<u>\$ 4,653</u>

The accompanying notes are an integral part of these financial statements.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

Michigan Health Academy was formed as a Charter School Academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In 1996, the Academy entered into a five-year contract with Saginaw Valley State University to charter a public school academy. The contract was extended through June 30, 2007. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Saginaw Valley State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees three percent of state aid as administrative fees. The total administrative fees incurred to the Saginaw Valley State University Board of Trustees for the year ended June 30, 2006, were \$30,296.

The Academy's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies relating to GAAP and used by the Academy are discussed below.

A. Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Academy-Wide Statements

The statement of net assets and the statement of activities display information about the Academy as a whole. The usual purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore, reconciliation is included to identify the relationship between the Academy-wide statements and the statements for the governmental funds.

The Academy-wide statement of activities presents a comparison between program expenses and program revenues. Revenues that are not classified as direct program revenues are presented as general revenues. Program revenues include grants and contributions. The comparison of program expenses and revenues identifies the extent to which each program is self-financed or draws resources from the Academy.

The Academy-wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net assets from the current year's activities.

C. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Academy programs.

The emphasis in fund financial statements is on the major funds. The Academy has opted to display information for all funds without regard to the criteria for determination of major funds. The Academy's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the government-wide statements.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred.

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible with the current period or within 60 days after year-end. Expenditures are still recognized when incurred, however, principal and interest on long-term debt is recognized when due.

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Receivables

Receivables consist of all revenues earned at year-end but not yet received.

Prepaid

Prepaid amounts consist of payments for which the Academy will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets. Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Leasehold improvements	5 years
Furniture and equipment	5-20 years

The leasehold improvements are depreciated over the life of the operating lease.

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Accrued Liabilities

Accrued liabilities consist of the July and August oversight fees due to the Academy's oversight agency.

Due to Management Company

Due to Management Company consist of amounts due on contracted employee's and administrative fees that are due and payable for the current fiscal year.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Deferred Revenue

Deferred revenue represents amounts for which the Academy has received or is due to receive but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended. At June 30, 2006, the Academy had no deferred revenue.

Long-Term Obligations

In the Academy wide financial statements, long-term debt is reported as a liability in the statement of net assets.

In the fund financial statements, governmental fund types recognize both interest and principal payments as expenditures during the period the payments were made.

NOTE 2--Stewardship, Compliance, and Accountability

The Academy formally adopted a General Fund budget by activity for the year ended June 30, 2006. Expenditures at this level in excess of amount budgeted are a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not formally recorded.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgeted amounts presented in the financial statements are amended by the Board of Directors.

The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place before July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits Academies to amend their budgets during the year. The Academy's expenditure budget variances are illustrated in the required supplemental information.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$35,271 and Agency cash was \$4,653 while the bank balance was \$61,814. Of the bank balance, all was covered by federal depository insurance. The Academy does not have an investment policy and is not holding any investments.

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Capital assets subject to depreciation				
Leasehold improvements	\$ 331,850	\$ -	\$ -	\$ 331,850
Equipment and furniture	34,153	2,995	-	37,148
Total Capital Assets	<u>366,003</u>	<u>2,995</u>	<u>-</u>	<u>368,998</u>
Accumulated depreciation				
Leasehold improvements	104,025	76,850	-	180,875
Equipment and furniture	58,184	2,881	-	61,065
Total Accumulated Depreciation	<u>162,209</u>	<u>79,731</u>	<u>-</u>	<u>241,940</u>
Total Net Capital Assets	<u>\$ 203,794</u>	<u>\$ (76,736)</u>	<u>\$ -</u>	<u>\$ 127,058</u>

Depreciation expense was not charged to activities as the Academy considers its capital assets to impact multiple activities and allocation is not practical.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Long-Term Debt

The Academy's long-term debt includes a bank loan with an original issue of \$290,000 bearing an interest rate of 6.05%. Monthly payments of principal and interest are \$2,113 through February of 2008, with a balloon payment due at that time. The note was refinanced in February of 2006 and has been amortized over 17 years. The loan is a general fund obligation and will be paid from general fund revenue as a transfer to the debt service fund. The Academy is allowed to transfer up to twenty percent of state aid each year to the debt service fund to service the debt. For the year ended June 30, 2006, the transfer from the general fund to the debt service fund did not exceed twenty percent.

Long-term debt also includes a capital lease obligation with an original issue of \$7,163 bearing an interest rate of 8.99% maturing in the 2007 fiscal year. Monthly payments are due in the amount of \$178.

Long-term debt also includes a \$45,000 long-term note from the Academy's management company, bearing an interest rate of 3%. Installment of principal and interest shall be paid each month in the amount of \$1,309. The note matures in the 2008 fiscal year.

The Academy borrowed \$72,000 from its management company during the fiscal year ending June 30, 2005 to make renovations to the building. This note bears an interest rate of 7% and matures in the 2011 fiscal year. Monthly payments are due in the amount of \$1,364.

A summary of long-term debt transactions follows:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006	Current Portion
Renovation loan	\$ 268,820	\$ -	\$ 5,275	\$ 263,545	\$ 8,946
Synergy loan	45,000	-	14,553	30,447	14,995
Synergy loan-renovations	68,000	-	5,783	62,217	12,189
Copier lease	3,450	-	1,873	1,577	1,577
	<u>\$ 385,270</u>	<u>\$ -</u>	<u>\$ 27,484</u>	<u>\$ 357,786</u>	<u>\$ 37,707</u>

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Long-Term Debt (continued)

The annual requirements to service debt to maturity, including both principal and interest, are as follows:

Years Ending June 30,	Principal	Interest	Total
2007	\$ 37,707	\$ 19,089	\$ 56,796
2008	283,121	14,740	297,861
2009	14,015	2,143	16,158
2010	15,027	1,131	16,158
2011	7,916	162	8,078
Total	<u>\$ 357,786</u>	<u>\$ 37,265</u>	<u>\$ 395,051</u>

NOTE 6--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

NOTE 7--Related Party Transactions

The Academy has entered into a management agreement with Synergy Training Solutions, Inc., a for-profit corporation. The management company provides the Academy with all personnel, as well as all Academy management, executive administration, fiscal services, curriculum services and office of the principal.

The amount expensed for the personnel, related benefits, payroll taxes, and fiscal services was \$677,637. The amount due the management company at June 30, 2006 was \$133,235.

Management fees are calculated on 10% of all revenues received directly or indirectly, from the State School Aid Act of 1979, from federal aid received by the Academy, and local sources of revenue. The amount expensed for management fees for the year ended June 30, 2006 was \$115,830. The management company was due fees in the amount of \$117,075. The management company forgave \$1,236 of those fees.

MICHIGAN HEALTH ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Lease Commitments

The Academy entered into a lease agreement for new facilities with an unrelated party under an operating lease for the period August 2003 through June 30, 2007. The lease required monthly minimum payments of \$17,751 for the fiscal year ended June 30, 2006. The amount expensed under the lease totaled \$211,713 for the year ended June 30, 2006. Per the lease agreement, the monthly rental amount shall increase by the same percentage as the State unrestricted foundation grant allowance per pupil increases as calculated by Michigan Department of Education. Due to this stipulation in the lease, the future payments are estimated at \$247,771 for the fiscal year ended June 30, 2007.

NOTE 9--Total Columns

Total columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America; nor is such data comparable to consolidation.

NOTE 10—Inter-Fund Transfers

The makeup of inter-fund transfers is as follows:

Outgoing Transfer		Incoming Transfer	
General Fund	\$ 48,981	Debt	\$ 48,981
Total	<u>\$ 48,981</u>	Total	<u>\$ 48,981</u>

The amount transferred from the general fund to the debt service was to cover principal and interest payments.

**REQUIRED
SUPPLEMENTAL INFORMATION**

Michigan Health Academy
General Fund
Budgetary Comparison
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance
Revenue				
Local	\$ 4,500	\$ 4,775	\$ 4,781	\$ 6
State	1,103,632	1,096,323	1,096,289	(34)
Federal	50,259	105,487	105,540	53
Total Revenues	<u>1,158,391</u>	<u>1,206,585</u>	<u>1,206,610</u>	<u>25</u>
Expenditures				
Current:				
Instruction				
Basic programs	355,003	368,537	368,248	(289)
Special education	48,503	48,780	48,929	149
Compensatory education	25,251	43,397	42,863	(534)
Career and technical education	86,483	93,604	93,505	(99)
Support Services				
Social work services	53,003	52,577	52,577	-
Pupil services	-	600	480	(120)
Improvement of instruction	3,108	34,399	33,756	(643)
Educational media services	-	639	525	(114)
Academic	3,000	3,888	3,888	-
General administration	154,472	152,054	151,952	(102)
School administration	117,111	114,275	110,609	(3,666)
Other school administration	2,000	750	549	(201)
Fiscal services	6,600	6,600	6,600	-
Operation and maintenance	239,816	246,011	242,177	(3,834)
Central	-	4,000	4,000	-
Technology	4,000	7,000	6,849	(151)
Pupil accounting	750	510	510	-
Debt service	-	220	264	44
Outgoing transfers and other	47,070	48,981	48,981	-
Total Expenditures	<u>1,146,170</u>	<u>1,226,822</u>	<u>1,217,262</u>	<u>(9,560)</u>
Excess (Deficiency) of Revenues Over Expenditures	12,221	(20,237)	(10,652)	9,585
Fund Balance - Beginning of Year	61,099	61,099	61,099	-
Fund Balance - End of Year	<u>\$ 73,320</u>	<u>\$ 40,862</u>	<u>\$ 50,447</u>	<u>\$ 9,585</u>

The accompanying notes are an integral part of these financial statements.



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

October 1, 2006

To the Board of Directors
Michigan Health Academy

We have audited the financial statements of the governmental activities of Michigan Health Academy, as of and for the year ended June 30, 2006, which comprise Michigan Health Academy's basic financial statements and have issued our report thereon dated October 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Michigan Health Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

To the Board of Directors
Michigan Health Academy
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Michigan Health Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Directors and is not intended and should not be used by anyone other than these specified parties.

Gardner, Provengano, Shauman & Thomas, P.C.

Certified Public Accountants